



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES AND
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES**

September 30, 1999

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

LAUREL COUNTY GENE HOLLON, SHERIFF SHERIFF'S SETTLEMENT-1998 TAXES SHERIFF'S SETTLEMENT-1998 UNMINED COAL TAXES

Report Findings:

On August 1, 2000, we completed fieldwork on the Sheriff's 1998 tax collections. The Auditor of Public Accounts issued an unqualified opinion on the financial statements.

Based on audit results, the following comments and recommendations were presented to the local officials, as well as within the audit report.

- The Sheriff Should Pay Amounts Owed and Collect Refunds
- The Sheriff Should Account For 10% Sheriff's Fee
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account
- The Sheriff Should Have Published The Sheriff's Annual Settlement With County

Tax Collections:

The Sheriff collected \$9,925,343 of taxes.

Deposits:

The Sheriff's official deposits were insured or collateralized with bank securities or bonds.

CONTENTS

PAGE

| | |
|--|----|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| SHERIFF'S SETTLEMENT - 1998 TAXES | 3 |
| SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES..... | 5 |
| NOTES TO FINANCIAL STATEMENT | 6 |
| COMMENTS AND RECOMMENDATIONS..... | 11 |
| REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS..... | 15 |



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Jimmy Williams, Laurel County Judge/Executive

Honorable Gene Hollon, Laurel County Sheriff

Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the Laurel County Sheriff's Settlement - 1998 Taxes and the Sheriff's Settlement - 1998 Unmined Coal Taxes as of September 30, 1999. These tax settlements are the responsibility of the Laurel County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principals.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Laurel County Sheriff's taxes charged, credited, and paid as of September 30, 1999, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Mike Haydon, Secretary, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance.

- The Sheriff Should Pay Amounts Owed and Collect Refunds
- The Sheriff Should Account For 10% Sheriff's Fee
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account
- The Sheriff Should Have Published The Sheriff's Annual Settlement With County

In accordance with Government Auditing Standards, we have also issued a report dated August 1, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 1, 2000

LAUREL COUNTY
GENE HOLLON, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES

September 30, 1999

| <u>Charges</u> | <u>County Taxes</u> | <u>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|--|---------------------|-------------------------|---------------------|---------------------|
| Real Estate | \$ 881,766 | \$ 690,018 | \$ 5,274,111 | \$ 1,708,382 |
| Tangible Personal Property | 180,204 | 122,869 | | 668,337 |
| Intangible Personal Property | | | | 251,956 |
| Fire Protection | 1,777 | | | |
| Franchise Corporation | 90,120 | 61,735 | 446,274 | |
| Omitted Taxes | 17,144 | 11,264 | 81,184 | 31,291 |
| Increased Through Erroneous Assessments | 585 | 420 | 2,914 | 3,929 |
| Undeveloped Oil and Gas | 410 | 300 | 2,038 | 793 |
| Penalties | 14,927 | 11,193 | 72,922 | 33,134 |
| Adjusted to Sheriff's Receipt | | (147) | | (2) |
| Gross Chargeable to Sheriff | <u>\$ 1,186,933</u> | <u>\$ 897,652</u> | <u>\$ 5,879,443</u> | <u>\$ 2,697,820</u> |
| <u>Credits</u> | | | | |
| Discounts | \$ 14,869 | \$ 11,259 | \$ 73,746 | \$ 38,000 |
| Exonerations | 6,483 | 4,918 | 32,680 | 14,287 |
| Delinquents: | | | | |
| Real Estate | 55,392 | 43,236 | 274,363 | 107,123 |
| Tangible Personal Property | 5,711 | 3,889 | 28,411 | 19,173 |
| Intangible Personal Property | | | | 4,273 |
| Total Credits | <u>\$ 82,455</u> | <u>\$ 63,302</u> | <u>\$ 409,200</u> | <u>\$ 182,856</u> |
| Net Tax Yield | \$ 1,104,478 | \$ 834,350 | \$ 5,470,243 | \$ 2,514,964 |
| Less: Commissions * | <u>47,228</u> | <u>35,460</u> | <u>127,090</u> | <u>107,174</u> |
| Net Taxes Due | \$ 1,057,250 | \$ 798,890 | \$ 5,343,153 | \$ 2,407,790 |
| Taxes Paid | 1,054,409 | 796,846 | 5,330,037 | 2,389,247 |
| Penalty Per State Settlement | | | | 906 |
| Refunds (Current and Prior Year) | <u>2,734</u> | <u>1,985</u> | <u>13,568</u> | <u>8,056</u> |
| Due Districts or (Refunds Due Sheriff) | | ** | | |
| as of Completion of Fieldwork | <u>\$ 107</u> | <u>\$ 59</u> | <u>\$ (452)</u> | <u>\$ 11,393</u> |

* and ** See Page 4

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 SHERIFF'S SETTLEMENT - 1998 TAXES
 September 30, 1999
 (Continued)

* Commissions:

| | | |
|---------------|----|-----------|
| 10% on | \$ | 10,000 |
| 4.25% on | \$ | 4,443,792 |
| 2.333444 % on | \$ | 5,403,675 |
| 1.5% on | \$ | 66,568 |

** Special Taxing Districts:

| | | |
|--------------------|----|------------------|
| Library District | \$ | 23 |
| Health District | | 24 |
| Extension District | | <u>12</u> |
| Due Districts | \$ | <u><u>59</u></u> |

The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY
 GENE HOLLON, SHERIFF
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES

September 30, 1999

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|--|---------------------|-------------------------------------|---------------------|--------------------|
| Sheriff's Official Receipt for Unmined Coal | \$ 154 | \$ 113 | \$ 768 | \$ 299 |
| <u>Credits</u> | | | | |
| Discounts | \$ 3 | \$ 2 | \$ 15 | \$ 6 |
| Net Tax Yield | \$ 151 | \$ 111 | \$ 753 | \$ 293 |
| Less: Commissions * | 6 | 5 | 18 | 12 |
| Net Taxes Due | \$ 145 | \$ 106 | \$ 735 | \$ 281 |
| Taxes Paid | 145 | 106 | 735 | 281 |
| Due Districts | | ** | | |
| as of Completion of Fieldwork | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

* Commissions:

| | | |
|--------------|----|-----|
| 4.25% on | \$ | 555 |
| 2.333444% on | \$ | 753 |

The accompanying notes are an integral part of the financial statements.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

September 30, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The Sheriff met the requirements stated above, and as of September 30, 1999, deposits were fully insured or collateralized at a 100% level with securities held by the county official's agent in the county official's name.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
September 30, 1999
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 1998 through September 30, 1999.

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 17, 1998 through September 30, 1999.

Note 4. Interest Income

The Laurel County Sheriff earned \$13,789 as interest income on 1998 taxes. The Sheriff distributed \$5,874 to the school districts as required by statute. The Sheriff owes an additional amount of \$4,662 to the school districts. The remainder will be used to operate the Sheriff's office.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS

September 30, 1999

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Pay Amounts Owed And Collect Refunds

The Sheriff should settle amounts owed and collect amounts due as follows:

| <u>Amounts Owed</u> | | <u>Due Sheriff</u> | |
|---------------------|-----------|--------------------|----------|
| State | \$ 11,395 | School | \$ (411) |
| County | \$ 86 | East Bernstadt | \$ (39) |
| Fire | \$ 22 | | |
| Library | \$ 23 | | |
| Health | \$ 24 | | |
| Extension | \$ 12 | | |

We recommend these amounts be paid or collected as soon as possible.

Sheriff's Response:

We will settle these amounts today.

2) The Sheriff Should Account For 10% Sheriff's Fee

During the 1998 tax collections, the Sheriff's 10% fee was deducted from monthly taxing district reports, but the fees had not been included. Accounting for the 10% Sheriff's fee in this manner resulted in under payments to all taxing districts and additional State tax penalties being assessed. We recommend the Sheriff include the 10% Sheriff's fee on each monthly report in order to avoid underpayment to taxing districts.

Sheriff's Response:

We will correct immediately

3) Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account

The Sheriff earned \$13,789 interest but did not pay the Laurel County School and the East Bernstadt School their share of interest as required by statute. KRS 134.140(3b) requires the Sheriff to pay monthly (at the time of his monthly distribution of taxes to the board of education) that part of investment earnings for the month which is attributable to the investment of school taxes. The remaining monthly interest should be transferred to the Sheriff's fee account. Our analysis of interest income from 1998 taxes indicates the Sheriff owes Laurel County Board of Education \$4,598 and East Bernstadt School \$64 for interest income. The remaining \$4,588 should be transferred to the Sheriff's fee account. We recommend the Sheriff pay the amount of interest due schools and fee account which was earned on 1998 tax collections and comply with KRS 134.140 (3b) in the future.

Sheriff's Response:

This will be done immediately.

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS
September 30, 1999
(Continued)

4) The Sheriff Should Have Published The Sheriff's Annual Settlement With County

The Sheriff did not publish his annual settlement with the fiscal court. KRS 134.310 requires the settlement to be published. The report of the settlement shall be subject to objections by the Sheriff or by the County Attorney, who shall represent the state and county, and the County Judge/Executive shall determine objections. Objections shall be submitted to the County Judge/Executive within (15) days of the filing of the settlement in the County Clerk's office. If no objections are submitted, the settlement is accepted.

Sheriff's Response:

This will be published in the future.

PRIOR YEAR:

STATE LAWS AND REGULATIONS:

- The Sheriff Owes Additional Interest To The Schools And To His Fee Account

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Laurel County Sheriff's Settlement - 1998 Taxes and Sheriff's Settlement - 1998 Unmined Coal Taxes as of September 30, 1999, and have issued our report thereon dated August 1, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are described in the accompanying comments and recommendations, included herein.

- The Sheriff Should Pay Amounts Owed And Collect Refunds
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 1, 2000

